TULSA WORLD

John Stancavage: Analysts expect strong earnings for American Airlines

By JOHN STANCAVAGE World Business Columnist | Posted: Thursday, April 23, 2015 12:00 am

American Airlines Group Inc. is expected to report earnings Friday that not only should raise the eyebrows of stock analysts, but also send them rocketing into space.

The carrier, which has made huge strides in its combination with merger partner U.S. Airways, will likely report a first-quarter profit of around $1.2 billion, according to 18 analysts polled by the Financial Times.

That's not a typo. The total really is $1.2 billion — with a "b" — for just the first three months of the year. That would be a company record, beating AA's first quarter last year when it earned $480 million.

For 2015, Wall Street analysts project American will earn a whopping $7.4 billion, or $10.42 a share. That would trounce its previous best 12 months, reached in 2014, of about $2.9 billion.

All of that is in sharp contrast with American's pre-bankruptcy/merger performance, which typically saw the airline losing hundreds of millions of dollars quarter after quarter.

Freed of a mountain of debt by the bankruptcy and finding huge synergies from its coupling with U.S. Airways, Fort Worth-based American is forecast by analysts to lead the 10 biggest carriers in income during the first quarter.

Even so, the airlines behind American (now the sector's largest airline after joining with U.S. Airways) are hardly laggards. Analysts expect all 10 together to earn about $3 billion for the period.

A decade ago, carriers were having difficulty getting airborne. Fare wars were rampant, planes flew half-full and debts piled up like excess baggage.

But the bad times led to consolidation. Delta with Northwest, Continental with United, Southwest with AirTran.

And, finally, stubborn American with U.S. Airways.

Today's airline executives seem to have learned a lot from the downturn. Some of the biggest lessons include having the discipline to not start deep, long-lasting fare wars and to better control the number of seats available.

And, for some reason, they also seem to be able to continue to collect an expanding variety of fees for everything from luggage to a few more inches of leg room — all without severe customer blowback.

All the airlines are following essentially the same playbook these days — even former free spirit Southwest Airlines. But American appears to be the one poised to remain No. 1 for a while.

"I think 2015 will be American's renaissance year," Tulsa money manager Fred Russell said. "I think the company will soar to great heights."

American is benefiting from all of the strategies the other carriers are using, plus fuel costs that are sharply lower than a year ago. But what's making AA stand out from the competition is a relatively new, post-merger business plan crafted for maximum efficiency and a steady flow of new aircraft.

Those new planes not only are cheaper to operate, they also are attractive to travelers.

"American has put 130 new jets into service," noted Russell, founder of Fredric E. Russell Investment Management. "This has been a tremendous lift for them. It's nice to get on a clean, new airplane."

Such attractiveness should help American retain its market share even if it adds flights to its schedule, the analyst said.

Executives at American, which employs 5,500 in Tulsa, seem confident as well. The company already has had two stock buyback programs since the merger, and instituted a dividend.

The shares closed Wednesday at $51.40, up 4 cents.

At that level, I asked Russell, are they a good buy?

"The best returns, of course, would have gone to the investors who gambled on the stock just as the company came out of bankruptcy," he replied.

"But for those who are patient and can weather the industry's volatility, American still is a strong choice."

AIRPLANEPULL

An American Airlines jet flies as an American Airlines Boeing 737-800 is seen in the foreground Oct. 15, 2014. MIKE SIMONS/Tulsa World